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Grim GOS Forecasts for 2009: 1.6 Percent Contraction, 15.9
Percent Unemployment

11. (U) On January 16, the GOS announced revised projections
for 2009 that included a 15.9 percent average unemployment
rate and a GDP contraction of 1.6 percent. The projection
for the GOS budget deficit in 2009 is 5.8 percent, almost
double the EU Maastricht limit. According to Second Vice
President and Minister of Economy/Finance Pedro Solbes, Spain
will face its most difficult moments of the slowdown in 2009.
The GOS predicts that Spain will begin to recover from its
recession in 2010, although GOS forecasts have been overly
optimistic in the past. To add to the grim news, the Bank of
Spain recently released statistics showing that loan
delinquency rates have tripled in a one-year period, reaching
3.1 percent in November 2008 compared with 0.8 percent a year
earlier. (El Pais, Expansion, El Confidencial, 1/16)

2008 Inflation Only 1.4 Percent After December Price Drop

12. (U) According to data published by the National Statistics
Institute (INE), the official 2008 (December-to-December)
inflation rate was 1.4 percent, below previously-reported
estimates (reftel). Although prices rose slightly for the
year as a whole, they fell 0.5 percent from November to
December after falling 0.4 percent from October to November,
which is a sign of the dramatic slowdown in demand in the
last couple of months. (INE, 1/15)

Standard and Poor's Warns of Possible Downgrade

13. (U) The bond rating agency Standard and Poor's announced
January 12 that Spain no longer enjoyed a stable triple-A
rating and put Spain on "Credit Watch negative," according to
press reports. Spain's Ministry of Economy and Finance
assured the media January 12 that S&P would not downgrade
Spain because the GOS was taking all necessary steps to
overcome the economic crisis. (All media, 1/13)

Lukoil Bid for Repsol Stake Shelved

14. (U) Local media reports indicate that talks between Lukoil and Spanish construction company Sacyr over the sale of Sacyr's 20 percent stake in energy giant Repsol have fallen through. It is not clear why, although some media reports suggest Lukoil's offer was significantly lower than the amount Sacyr had paid (with borrowed funds) for the shares a few years ago. Sources close to Sacyr indicate that Chinese government-owned oil company Sinopec is now a possible purchaser. Comment: Prospects for the Russian company were not helped by negative sentiment over the recent Russian stoppage of gas supplies to Ukraine. National sentiment over Repsol as one of Spain's "national champions" was also an obstacle, and may be so for Sinopec's prospects as well. (El Confidencial, 1/14; El Pais 1/15)
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